

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL THREE)

Docket No. RM2020-10

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
ORDER NO. 5697 REGARDING OVERTIME COSTS
(November 24, 2020)

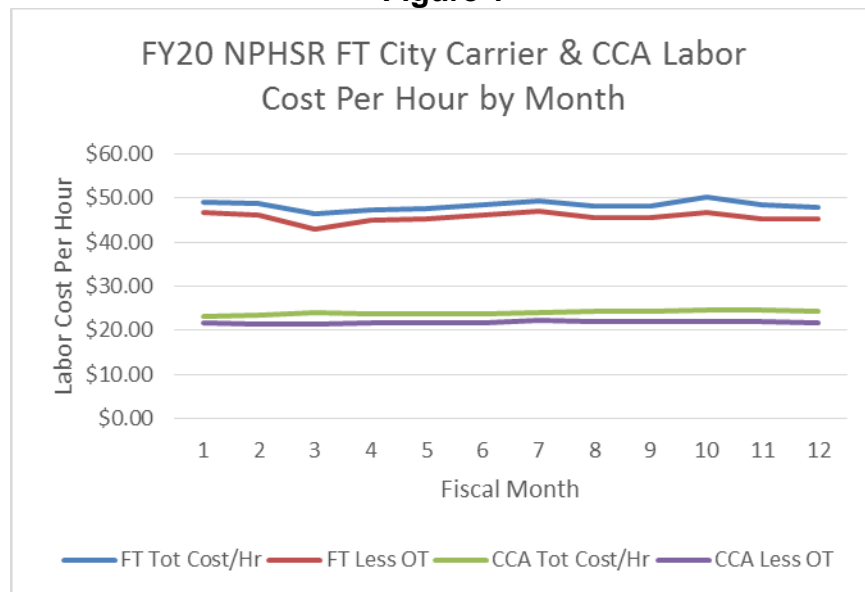
Order No. 5697 approved Proposal Three (IOCS Cluster), but requested a follow-up response within 60 days addressing certain aspects of overtime costs. Specifically, the Order requested findings on the potential for adjusting for overtime costs differences, and whether adjusting or accounting for these differences would further materially improve the accuracy of city carrier cost estimates. Order No. 5697 (September 25, 2020) at 16-17, 19. The Postal Service hereby responds.

The Postal Service currently includes all overtime costs within the quarterly accounting controls, with no differentiation between which months within the quarter accrued the specific overtime costs. In its comments in this docket, United Parcel Service (UPS) has suggested that adjusting for overtime costs differences by applying monthly control totals that incorporate overtime costs would materially improve the accuracy of the city carrier cost estimates. UPS Comments (September 1, 2020) at 13. After further investigation, the Postal Service concludes that, while it is possible to implement monthly control totals, doing so would not materially improve the accuracy of the city carrier cost estimates.

The Postal Service examined the changes throughout FY 2020 in labor cost per

hour (including overtime costs) by comparing average labor cost per hour across months, with and without overtime, from the National Payroll Hours Summary Reports. For each month, one two-week pay period completely contained within the month was selected as representative for that month. As Figure 1 demonstrates, the relative labor costs per hour between full-time city carriers and part-time city carriers (represented by City Carrier Assistances, CCAs) are stable throughout the year, including during the peak season. (The Excel file associated with this response is attached electronically.)

Figure 1



The relatively stable trend in overall labor costs (including overtime costs) reveals that the overtime costs alone do not materially impact the labor costs accrued by any craft. Overtime costs per hour, relative to regular wages and other labor-related costs, are not disproportionately large for any month, including December, and so do not contribute to unusually high labor costs per hour in any particular month. Although intuitively one might expect an overtime hour to be much more costly than an hour in a non-overtime pay status, this is not entirely the case. While the wage rate for an

overtime hour may be higher, benefit costs do not accrue at the same rate for overtime hours, which attenuates the difference in labor cost per hour for both overtime and regular workhours. Additionally, the effect of overtime premium pay on monthly labor costs per hour is limited by the share of overtime hours. A considerable majority of hours are in non-overtime status even for pay periods in the holiday peak season (and the Postal Service incurs relatively smaller, but still substantial, overtime hours in non-peak periods).

Despite the strong implication of these comparisons that the UPS suggestion was unlikely to bear much fruit, the Postal Service decided to take the analysis one step further and see if there would be any material changes in product costs if differences in monthly accrued labor costs were taken into account. The FY20Q2YTD filed IOCS-Cluster product costs were adjusted using monthly accrued cost totals, including overtime costs, from the Statement of Revenue and Expenses. FY20Q2YTD costs were used because CV estimates were already developed and filed with the Commission in the initial IOCS-Cluster proposal. These CVs were used to create 95 percent confidence intervals about the original cost estimates, which could be used to check if the monthly control total adjustments have a material impact.

Figure 2

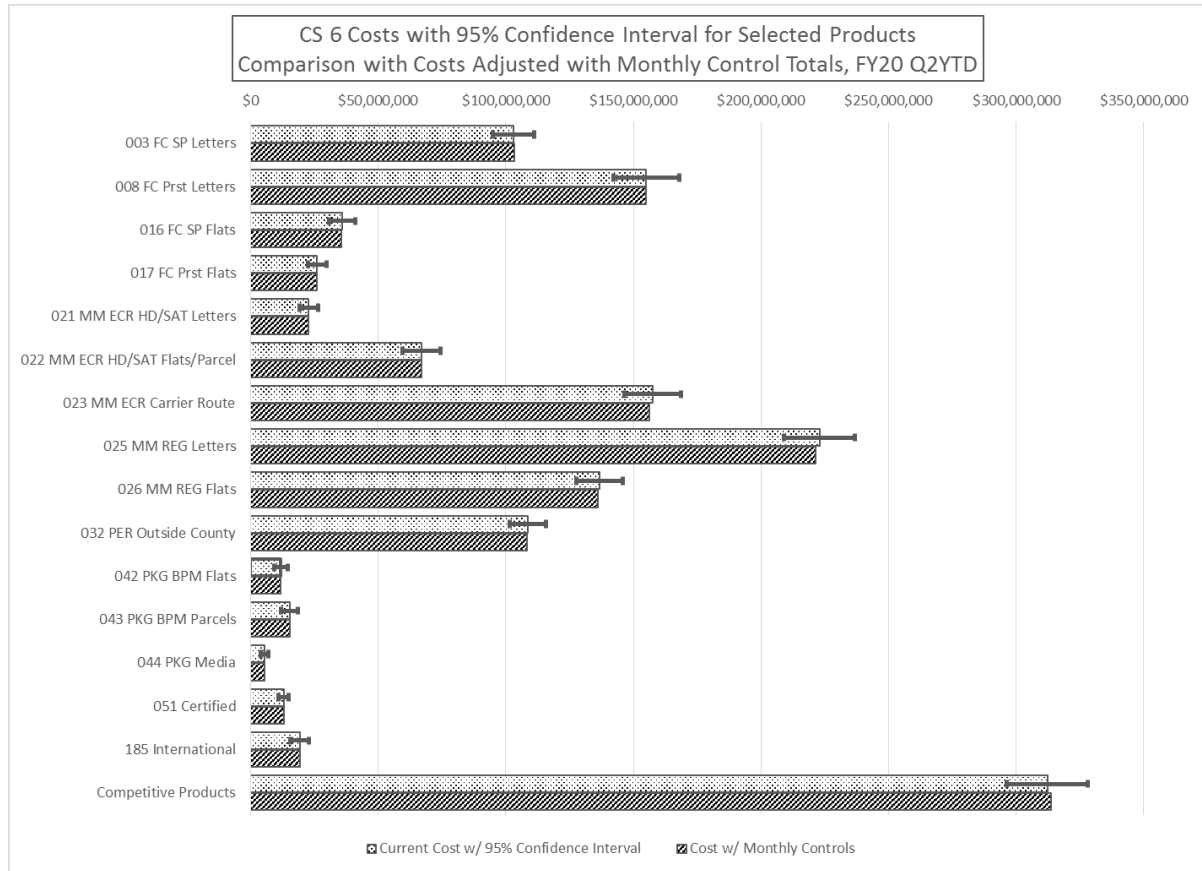


Table 1: Comparison of Product Costs for CS 6, with and without Monthly Control Totals. FY2020 Q2YTD

Class	Current Cost ¹	CV ²	Lower 95% Bound	Upper 95% Bound	Cost w/ Monthly Controls	SRE-based adjustment %	Is Adjustment Significant?
003 FC SP Letters	\$102,890,540	4.0%	\$95,307,448	\$111,596,927	\$103,452,188	0.5%	No
004 FC SP Cards	\$6,576,963	14.6%	\$4,684,708	\$8,442,263	\$6,563,485	-0.2%	No
008 FC Prst Letters	\$155,070,282	4.3%	\$141,854,438	\$167,750,036	\$154,802,237	-0.2%	No
009 FC Prst Cards	\$10,218,156	12.6%	\$7,595,527	\$12,596,245	\$10,095,886	-1.2%	No
016 FC SP Flats	\$35,861,351	7.4%	\$30,551,527	\$40,838,844	\$35,695,185	-0.5%	No
017 FC Prst Flats	\$26,142,645	7.1%	\$22,383,183	\$29,578,395	\$25,980,789	-0.6%	No
021 MM ECR HD/SAT Letters	\$22,751,644	8.3%	\$19,069,855	\$26,456,280	\$22,763,067	0.1%	No
022 MM ECR HD/SAT Flats/Parcel	\$67,051,170	5.7%	\$59,557,627	\$74,421,826	\$66,989,726	-0.1%	No
023 MM ECR Carrier Route	\$157,567,429	3.6%	\$145,267,917	\$167,481,729	\$156,374,823	-0.8%	No
024 EDDM-R	\$569,193	38.9%	\$139,966	\$1,038,059	\$589,012	3.5%	No
025 MM REG Letters	\$222,933,632	3.2%	\$207,726,853	\$235,175,089	\$221,450,971	-0.7%	No
026 MM REG Flats	\$136,856,225	3.4%	\$127,205,039	\$145,285,802	\$136,245,421	-0.4%	No
027 MM REG Parcels/NFM	\$1,019,472	42.4%	\$171,872	\$1,872,178	\$1,022,025	0.3%	No
031 PER In County	\$9,116,052	12.5%	\$6,833,282	\$11,259,904	\$9,046,593	-0.8%	No
032 PER Outside County	\$108,720,608	3.3%	\$101,174,597	\$115,370,344	\$108,272,470	-0.4%	No
042 PKG BPM Flats	\$11,845,172	11.5%	\$9,030,400	\$14,267,767	\$11,649,083	-1.7%	No
043 PKG BPM Parcels	\$15,365,255	10.9%	\$12,102,839	\$18,683,901	\$15,393,370	0.2%	No
044 PKG Media	\$5,424,081	14.4%	\$3,956,692	\$7,072,084	\$5,514,388	1.7%	No
051 Certified	\$13,017,221	8.1%	\$10,919,616	\$15,018,424	\$12,969,020	-0.4%	No
052 COD	\$24,962	74.4%	-\$11,319	\$60,630	\$24,655	-1.2%	No
054 Insured	\$113,361	65.7%	-\$34,074	\$271,217	\$118,572	4.6%	No
055 Registered	\$116,098	71.4%	-\$42,545	\$255,292	\$106,374	-8.4%	No
058 Other Services	\$497,579	41.3%	\$97,732	\$932,054	\$514,893	3.5%	No
085 USPS	\$12,529,297	13.8%	\$9,050,889	\$15,782,234	\$12,416,562	-0.9%	No
086 Free Mail	\$1,174,070	32.1%	\$442,436	\$1,949,239	\$1,195,838	1.9%	No
185 International	\$19,245,195	9.7%	\$15,568,590	\$22,904,632	\$19,236,611	0.0%	No
Competitive	\$312,286,048	2.6%	\$297,742,245	\$329,492,591	\$313,617,418	0.4%	No

Sources:

1. USPS-RM2020-10-1, file "I_FORMS-Public-FY20Q2YTDCluster20"
2. USPS-RM2020-10-1, file "IOCS_Cluster PRC CV Summary FY20Q2YTD Public Ttl"

As Figure 2 and Table 1 demonstrate, not one of the products displayed was materially impacted by switching to monthly accounting control totals that include overtime costs. Every product falls well within the 95 percent confidence interval of the original estimate, indicating that the UPS hypothesis of distribution keys between months within a quarter being significantly different from one another is not correct. The Postal Service acknowledges variations in the overtime costs accrued between months within a quarter, but rejects the suggestion that incorporating these differences explicitly would result in material changes in reported product costs.

Respectfully submitted,

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